

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Portage Lake District Library	County Houghton
Fiscal Year End June 30, 2007	Opinion Date December 14, 2007	Date Audit Report Submitted to State December 18, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.		Telephone Number 989-894-1040	
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Authorizing CPA Signature 		Printed Name Mark J. Campbell	License Number 1101007803

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	5
Statement of Activities	6
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	7
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	8
Statement of Revenues, Expenditures, and Changes in Fund Balance	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Notes to Financial Statements	11-16
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	17

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

December 14, 2007

To the Library Board
Portage Lake District Library
Houghton County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Portage Lake District Library, as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Portage Lake District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Portage Lake District Library as of June 30, 2007, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments*, as of July 1, 2006.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

The Management's Discussion and Analysis report of the Portage Lake District Library covers the library's financial performance during the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

Our financial status remained stable throughout the FY 2006-2007.

The library revenue sources were as follows:

District Millage.....	\$404,548.78
Contributions.....	\$74,930.08
Other.....	\$66,181.71

Based on currently known facts, decisions or conditions, there is no reason to believe that the library may experience a change in its financial position.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Library and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Library in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Library as a whole using accounting methods used by private companies. The statement of net assets includes all of the Library's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Library are reported as governmental fund activities. This includes the General Fund.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Library's funds, focusing on significant (major) funds not the Library as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Library Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Library has the following types of funds:

Governmental Funds: All of the Library's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Library's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Library's governmental funds include the General Fund.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

The Library's net assets for governmental activities increased by \$98,344.55 during the fiscal year ended June 30, 2007, totaling \$544,588.13.

	<u>Governmental Activities 2007</u>
Current Assets	352 593
Non-current Assets	<u>270 270</u>
Total Assets	<u>622 863</u>
Current Liabilities	78 275
Net Assets – Unrestricted	<u>544 588</u>
Total Liabilities and Net Assets	<u>622 863</u>

	<u>Governmental Activities 2007</u>
Program Revenues	
Charges for Services	29 560
Operating Grants and Contributions	74 930
General Revenues	
Property Taxes	404 549
Interest Income	6 028
Other Revenue	<u>30 594</u>
Total Revenue	<u>545 661</u>
Program Expenses	
Culture – Library	443 198
Interest on Long-Term Debt	<u>4 118</u>
Total Expense	<u>447 316</u>
Change in Net Assets	<u>98 345</u>

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

The General Fund's fund balance decreased by \$15,022.66 during the fiscal year ended June 30, 2007, totaling \$274,318.34. The activities of the general fund have remained constant, consisting of salaries and benefits, purchases of books and materials, utilities, building maintenances, and programs. The revenues collected to fund the activities increased due to an increase in taxable values in the district.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets:

The Library spent \$35,094.32 on capital outlay expenditures this year.

Long-Term Debt:

The debt service payments for this fiscal year totaled \$104,117.78 (\$100,000.00 principal and \$4,117.78 interest).

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The fiscal year covered in this audit was the second year of the Library's capital campaign. The campaign has been very successful thanks to the generosity of many donors.

CONTACTING ENTITY MANAGEMENT

This financial report is designed to provide taxpayers, creditors, investors and customers, with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report contact James Curtis, Library Director, Portage Lake District Library, 58 Huron Street, Houghton, Michigan 49931. Phone (906) 482-4570.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash on hand	1 030 85
Cash in bank	244 122 91
Taxes receivable	31 717 35
Penal fines receivable	19 477 04
Pledges receivable	45 617 00
Other receivables	5 328 25
Prepaid expenses	<u>5 300 00</u>
Total Current Assets	<u>352 593 40</u>
NON-CURRENT ASSETS:	
Capital Assets	326 268 19
Less: Accumulated Depreciation	<u>(55 998 40)</u>
Total Non-current Assets	<u>270 269 79</u>
TOTAL ASSETS	<u><u>622 863 19</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	15 035 17
Accrued expenses	17 622 89
Deferred revenue	<u>45 617 00</u>
Total Current Liabilities	<u>78 275 06</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>78 275 06</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	270 269 79
Unrestricted	<u>274 318 34</u>
Total Net Assets	<u>544 588 13</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>622 863 19</u></u>

The accompanying notes are an integral part of these financial statements.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

STATEMENT OF ACTIVITIES
Year ended June 30, 2007

		<u>Program Revenue</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants - Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS				
Governmental Activities:				
Culture - Library	443 198 24	29 560 77	74 930 08	(338 707 39)
Interest on long-term debt	<u>4 117 78</u>	<u>-</u>	<u>-</u>	<u>(4 117 78)</u>
Total Governmental Activities	<u>447 316 02</u>	<u>29 560 77</u>	<u>74 930 08</u>	<u>(342 825 17)</u>
General Revenues:				
Property taxes				404 548 78
State aid				9 549 42
Penal fines				19 477 04
Interest				6 028 48
Miscellaneous				<u>1 566 00</u>
Total General Revenues				<u>441 169 72</u>
Change in net assets				98 344 55
Net assets, beginning of year				<u>446 243 58</u>
Net Assets, End of Year				<u>544 588 13</u>

The accompanying notes are an integral part of these financial statements.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND
June 30, 2007

	<u>General</u>
<u>Assets</u>	
Cash on hand	1 030 85
Cash in bank	244 122 91
Taxes receivable	31 717 35
Penal fines receivable	19 477 04
Pledges receivable	45 617 00
Other receivables	5 328 25
Prepaid expenses	<u>5 300 00</u>
Total Assets	<u><u>352 593 40</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	15 035 17
Accrued expenses	17 622 89
Deferred revenue	<u>45 617 00</u>
Total liabilities	<u>78 275 06</u>
Fund equity:	
Unreserved:	
Undesignated	<u>274 318 34</u>
Total fund equity	<u>274 318 34</u>
Total Liabilities and Fund Equity	<u><u>352 593 40</u></u>

The accompanying notes are an integral part of these financial statements.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS
June 30, 2007

TOTAL FUND BALANCES – GOVERNMENTAL FUND	274 318 34
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	326 268 19
Accumulated depreciation	<u>(55 998 40)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>544 588 13</u></u>

The accompanying notes are an integral part of these financial statements.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
Year ended June 30, 2007

	<u>General</u>
Revenues:	
Property taxes	404 548 78
State aid	9 549 42
Charges for services	29 560 77
Penal fines	19 477 04
Interest	6 028 48
Contributions	74 930 08
Miscellaneous	<u>1 566 00</u>
Total revenues	<u>545 660 57</u>
Expenditures:	
Culture – Library:	
Wages	181 597 89
Fringe benefits	57 625 38
Education and dues	3 951 22
Supplies	23 984 61
Books and materials	30 381 05
Utilities	29 308 37
Insurance	6 527 00
Professional services	16 142 47
Building rent	48 917 35
Repairs and maintenance	12 363 15
Miscellaneous	10 672 64
Capital outlay	35 094 32
Debt service	<u>104 117 78</u>
Total expenditures	<u>560 683 23</u>
Excess (deficiency) of revenues over expenditures	(15 022 66)
Fund balance, July 1	<u>289 341 00</u>
Fund Balance, June 30	<u><u>274 318 34</u></u>

The accompanying notes are an integral part of these financial statements.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (15 022 66)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(21 727 11)
Capital Outlay	35 094 32

Repayment of debt principal is an expenditure in the governmental funds, the repayment
does not have an effect in the statement of activities but does reduce the debt
balance in the statement of net assets.

Principal payments on long-term debt	<u>100 000 00</u>
--------------------------------------	-------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>98 344 55</u></u>
---	-------------------------

The accompanying notes are an integral part of these financial statements.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Portage Lake District Library, Houghton County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

The Portage Lake District Library (the "Library") was established in 1974 pursuant to development of a plan by the City of Houghton and the Township of Portage and Public Act No. 164 of 1955, as amended by Public Act No. 32 of 1970. The District also currently includes the Township of Chassell.

The Library Board of Trustees consists of eight (8) members with three appointed by the Houghton City Council, three appointed by the Portage Township Board, and two appointed by the Chassell Township Board. The Library Board of Trustees are given powers to maintain and operate a public library for the district. Library operations are financed substantially through property taxes levied by the City and Townships. The Library also provides services to Duncan Township through an agreement where the Library receives penal fines allocated to the Township by Houghton County.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Library contain all the Library funds that are controlled by or dependent on the Library's executive or legislative branches.

The reporting entity is the Portage Lake District Library. The Library is governed by an appointed Library Board. As required by generally accepted accounting principles, these financial statements present the Library as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Library. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Library. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases of materials are reflected in expense when paid.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Library 2006 tax roll millage rate was 2.0 mills, and the taxable value was \$211,250,335.00.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$3,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Employees accumulate sick leave based on their actual hours worked times a pre-determined multiplier, to a maximum of 240 hours. Upon the death or retirement of any employee, accumulated sick/personal leave days shall be paid to the employee (or, in the event of death, the employee's estate) according to the following schedule:

- after three years of employment, $\frac{1}{4}$ of accumulated sick/personal leave
- after five years of employment, $\frac{1}{2}$ of accumulated sick/personal leave
- after eight years of employment, $\frac{3}{4}$ of accumulated sick/personal leave
- after ten years of employment, all of accumulated sick/personal leave

Vacation pay is accumulated based on the actual hours worked times a pre-determined multiplier and cannot exceed two times the employee's annual entitlement.

Accumulated vacation and sick leave vested at June 30, 2007 was \$10,253.27.

Post-employment Benefits

The Library provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective July 1, 2006, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.

Government-Wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Library's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$270,269.79.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Library Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Library Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Library Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Library Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Library Board has designated two banks for the deposit of Library funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Library's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>244,122.91</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 3 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	211 304 84
Uninsured and Uncollateralized	<u>38 754 52</u>
Total Deposits	<u>250 059 36</u>

The Library did not have any investments as of June 30, 2007.

Note 4 – Capital Assets

Capital asset activity of the Library's Governmental activities for the current year was as follows:

	<u>Balance 7/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/07</u>
Land	3 000 00	-	-	3 000 00
Buildings	15 000 00	-	-	15 000 00
Equipment	<u>273 173 87</u>	<u>35 094 32</u>	<u>-</u>	<u>308 268 19</u>
Total	291 173 87	35 094 32	-	326 268 19
Accumulated Depreciation	<u>(34 271 29)</u>	<u>(21 727 11)</u>	<u>-</u>	<u>(55 998 40)</u>
Net Capital Assets	<u>256 902 58</u>	<u>13 367 21</u>	<u>-</u>	<u>270 269 79</u>

Note 5 – Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 7/1/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/07</u>
Installment loan	<u>100 000 00</u>	<u>-</u>	<u>100 000 00</u>	<u>-</u>
Total	<u>100 000 00</u>	<u>-</u>	<u>100 000 00</u>	<u>-</u>

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 6 – Installment Loan

On June 30, 2006, the Library obtained a three year installment loan from Wells Fargo Bank in the amount of \$100,000.00 with an interest rate of 5.45%, payable monthly. The loan was collateralized by the Library's savings accounts and was used to provide funds for the purchase of furniture and equipment.

The entire loan was paid in full during the fiscal year ended June 30, 2007.

Note 7 – Building Lease

Portage Lake District Library entered into a lease and management agreement with the City of Houghton for a period of thirty years. The Library shall operate, maintain, and repair the building. As rent, the Library shall pay the City such amount that the Library receives as property tax revenue (up to 2 mills) that would have been captured from the properties located within the City of Houghton's M-26 and Sharon Avenue Corridor Tax Increment Finance Authority (TIFA), excluding any non-captured tax revenue normally received by the Library under the existing TIFA procedures.

The amount paid to the City of Houghton for the fiscal year ended June 30, 2007 was \$48,917.35.

Note 8 – Deferred Compensation Plan

The Library does not have a deferred compensation plan.

Note 9 – Pension Plan

The Library does not have a pension plan.

Note 10 – Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

PORTAGE LAKE DISTRICT LIBRARY
Houghton County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	373 680 00	397 597 00	404 548 78	6 951 78
State aid	8 692 00	4 000 00	9 549 42	5 549 42
Charges for services	18 800 00	28 850 00	29 560 77	710 77
Penal fines	20 000 00	18 000 00	19 477 04	1 477 04
Interest	3 000 00	4 000 00	6 028 48	2 028 48
Contributions	25 500 00	76 925 00	74 930 08	(1 994 92)
Miscellaneous	<u>2 500 00</u>	<u>2 800 00</u>	<u>1 566 00</u>	<u>(1 234 00)</u>
Total revenues	<u>452 172 00</u>	<u>532 172 00</u>	<u>545 660 57</u>	<u>13 488 57</u>
Expenditures:				
Culture – Library	451 610 00	447 602 00	421 471 13	(26 130 87)
Capital outlay	40 000 00	40 000 00	35 094 32	(4 905 68)
Debt service	<u>105 000 00</u>	<u>105 000 00</u>	<u>104 117 78</u>	<u>(882 22)</u>
Total expenditures	<u>596 610 00</u>	<u>592 602 00</u>	<u>560 683 23</u>	<u>(31 918 77)</u>
Excess (deficiency) of revenues over expenditures	(144 438 00)	(60 430 00)	(15 022 66)	45 407 34
Fund balance, July 1	<u>144 450 00</u>	<u>100 000 00</u>	<u>289 341 00</u>	<u>189 341 00</u>
Fund Balance, June 30	<u><u>12 00</u></u>	<u><u>39 570 00</u></u>	<u><u>274 318 34</u></u>	<u><u>234 748 34</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

December 14, 2007

To the Library Board
Portage Lake District Library
Houghton County, Michigan

We have audited the financial statements of the Portage Lake District Library, for the year ended June 30, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Portage Lake District Library in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Library Board
Portage Lake District Library
Houghton County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended June 30, 2004. The implementation of this pronouncement for the Portage Lake District Library began with the year ended June 30, 2007. The daily operations and recording transactions did not change significantly, however, the Library is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

The Library's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Library cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Library Board Members understand these circumstances when performing their oversight responsibilities.

FIDELITY BONDS

All Library employees classified as L-2 or above are allowed to handle Library monies.

We recommend that the Library Board obtain fidelity bonds on all library employees that handle Library monies.

To the Library Board
Portage Lake District Library
Houghton County, Michigan

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Library's financial statements and this communication of these matters does not affect our report on the Library's financial statements, dated June 30, 2007.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Campbell Kusterer & Co., P.C.", written in a cursive style.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants